

Committee on Ways and Means

H.R. 3365 – *Military Family Tax Relief Act of 2003*

Summary

- **Tax-Free Treatment of Death Gratuity Benefits** – Under current law, survivors of members of the military receive a \$6,000 death gratuity payment, but only half of it is tax-free. The bill doubles the death gratuity payment to \$12,000 and provides that the full payment is tax-free.
- **Capital Gain Exclusion for Home Sales** – Under current law, individuals may exclude up to \$250,000 (\$500,000 for married couples) of gain from the sale of a home if they resided in the home for two of the five years preceding the sale. The bill allows military and Foreign Service personnel to ignore (for up to ten years) the time transferred away from home on official extended duty for purposes of determining the two-out-of-five-year rule.
- **Tax-Free Treatment of “HAP” Payments** – Under current law, members of the Armed Forces can receive payments under the Homeowners’ Assistance Program to compensate them for a drop in home values resulting from military base closures or realignments. These payments are taxed as compensation. The bill provides that these payments are tax-free.
- **Tax-Free Treatment of Dependent Care Benefits** – Clarifies that dependent care assistance provided under a military dependent care assistance program is tax-free.
- **Treatment of Distributions from Qualified Tuition Programs and Coverdell Education Savings Accounts for Service Academy Appointments** – Under current law, distributions from a qualified tuition program or a Coverdell Education Savings Account are subject to a ten percent penalty if they are not used for qualified higher education expenses. An exception is made if the student receives a scholarship. Without the exception, families who save for college would be penalized if their children receive scholarships. The bill clarifies that appointments to a military academy are treated like scholarships for purposes of the exception to the ten percent penalty.
- **Above-the-Line Deduction for Overnight Travel Expenses of Military Reservists** – Under current law, reservists who itemize their expenses may deduct unreimbursed travel expenses to the extent these expenses exceed two percent of adjusted gross income. The bill provides an above-the-line deduction for overnight travel expenses

incurred more than 100 miles away from home (including meals, transportation and lodging).

- **Modify Eligibility Criteria of Tax-Exempt Veterans' Organizations** – The bill liberalizes the definition of a tax-exempt veterans' organization by allowing ancestors or lineal descendants to be treated as members for purposes of one of the membership requirements.
- **Suspension of Tax-Exempt Status for Designated Terrorist Organizations** – The bill provides that the tax-exempt status of an organization is automatically suspended during any period in which the organization is designated as a terrorist organization or is listed in or designated by an Executive Order as supporting terrorism.
- **Extend Combat Zone Filing Rules to Contingency Operations** – Under current law, several deadlines under the Tax Code (such as filing tax returns and making tax payments) are extended for certain individuals serving in a combat zone during a period of combatant activities. The bill applies these deadline extension rules to individuals serving in “contingency operations” (i.e., military operations designated by the Secretary of Defense in which personnel are or may become involved in military actions during a war or national emergency declared by the President or Congress).
- **Extension of Victims' Tax Relief to Astronauts Who Die on Space Missions** – The bill extends the income and estate tax relief provisions of the *Victims of Terrorism Tax Relief Act of 2002* to astronauts who lose their lives in the line of duty.